

Message Text

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ACTION AF-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 PA-01 PRS-01 /121 W
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R 031106Z NOV 76

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 7608

INFO AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY VIENNA

C O N F I D E N T I A L LAGOS 12521

E.O. 11652: GDS

TAGS: ENRG, NI, US

SUBJECT: PREDICTED 1977 PETROLEUM SHORTAGE

REF: (A) STATE 252076 (NOTAL) (B) LAGOS 12140 (C) LAGOS 12520

1. RE WORLD-WIDE SHORT TERM PETROLEUM SHORTAGE IN MID-1977
PREDICTED BY EXPERT WALTER LEVY, EMBASSY ASSESSMENT IS THAT
NIGERIA WOULD BE WILLING, BUT WILL NOT BE ABLE, TO PRODUCE
SIGNIFICANTLY MORE THAN 2.3 MILLION B/D BY MIDDLE NEXT YEAR.

2. AS NOTED REFTTEL B, NEIGHER COMPANY NOR GOVERNMENT SOURCES
THINK ACTUAL PRODUCTION CAPACITY IS EQUAL TO 2.5 MILLION B/D
USUALLY REFERRED TO AS INSTALLED PRODUCTION CAPACITY. EVEN
IF FMG RESTRICTIONS ON WELL PRODUCTION RATES IMPOSED IN
NAME OF CONSERVATION WERE LIFTED, WHICH VERY UNLIKELY, MOST
OPTIMISTIC ESTIMATE OF ALL OUT PRODUCTION CURRENTLY
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AVAILABLE IS 2.4 MILLION B/D. ENGINEERS SAY SOME UNUSED

WELLS MAY HAVE SANDED UP, WOULD NEED WORKOVER TO PRODUCE AGAIN. MOREOVER, FACILITIES SOMETIMES HAVE TO BE SHUT DOWN FOR CLEANING, AND OCCASIONAL LEAK OR BREAK IN PIPELINE ALWAYS POSSIBLE. EVEN IF NEW INCENTIVES OFFERED BY FMG MORE ATTRACTIVE THEN EXPECTED, FIELDS WHICH COMPANIES HAVE DISCOVERED BUT NOT DEVELOPED COULD NOT BE BROUGHT INTO PRODUCTION IN LESS THAN TWO YEARS. PROBABLY NOT MORE THAN 50,000 B/D OF NEW PRODUCTION IS SLATED COME ON STREAM BETWEEN NOW AND MID-1977. THUS, EMBASSY WOULD VENTURE GUESS THAT EFFECTIVE PRODUCTION CAPACITY WILL NOT EXCEED 2.3 MILLION B/D DURING PERIOD WHEN SHORTAGE MAY OCCUR.

3. WITH REGARD TO LEVEL OF US IMPORTS, EMBASSY BELIEVES FMG WILLING TO ALLOW PRESENT OR EVEN LARGE SHARE OF ITS EXPORTS GO TO US. FMG OFFICIALS WELL AWARE NIGERIAN CRUDE HIGHLY SUITABLE TO GASOLINE ORIENTED US MARKET AND US REFINERS CONSEQUENTLY WILLING PAY PREMIUM PRICES FOR IT. PRACTICAL ECONOMIC CONSIDERATIONS MAKE IT UNLIKELY NIGERIA WOULD CONSIDER CUTTING BACK PRESENT CRUDE SALES TO US EVEN IF GREATER DIFFERENCES SHOULD ARISE, FOR EXAMPLE, OVER SOUTH AFRICAN POLICIES.

4. ABOVE ESTIMATE CONCERNING EXPORTS TO US IS BASED ON ASSUMPTION THAT COMPANIES WILL ACCEPT NEW INCENTIVES SMG PLANS TO OFFER NEAR YEAR END. IF IT EMERGES FMG INTENT ON FORCING COMPANIES TO SWALLOW WHAT THEY CONSIDER TO BE UNFAIRLY LOW RATE OF RETURN, NOT ONLY ON OLDER OIL, BUT ALSO ON RELATIVELY RECENT PRODUCTION FACILITIES, AND IF A CONFRONTATION ACTUALLY DOES EMERGE, THEN IT IS POSSIBLE PRODUCTION MIGHT BE TEMPORARILY DISRUPTED AND EXPORTS AFFECTED. US COMPANIES, WITH THEIR RELATIVELY GREATER SHARE OF NEW OIL, ALSO LIKELY TO BE HIT HARDER THAN OLDEST AND LARGEST PRODUCER SHELL-BP. IF THEY PROTEST TOO MUCH, FMG MIGHT SINGLE OUT ONE OF US COMPANIES AND CUT ITS PRODUCTION (AND EXPORTS TO US) FOR A TIME TO FORCE IT TO CRY UNCLE. NEVERTHELESS, ON BALANCE
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EMBASSY FEELS THAT FMG NEED FOR REVENUE ON ONE HAND AND COMPANY SUPPLY COMMITMENTS TO CUSTOMER ON OTHER ARE BOTH SUBSTANTIAL ENOUGH THAT EACH SIDE WILL DO EVERYTHIN POSSIBLE TO AVOID ANY REDUCTION IN PRODUCTION AND EXPORTS.
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